

# Joint Legislative Budget Committee Staff Memorandum

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DATE: March 31, 2008

TO: Senator Timothy Bee, Senate President  
Representative Jim Weiers, Speaker of the House

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Deputy Director

SUBJECT: ESTIMATED CLASSROOM SITE FUND PER PUPIL AMOUNT FOR FY 2009

A.R.S. § 15-977 requires the JLBC Staff to determine the Classroom Site Fund (CSF) per pupil distribution for the following budget year by March 30. The CSF was established by Proposition 301 from the November 2000 General Election. It receives funding from the 0.6¢ education sales tax established by Proposition 301 and from growth in K-12 state trust land revenues. The JLBC Staff estimates that the per pupil amount for FY 2009 will be \$390.

## Statutory Formula

A.R.S. § 15-977(B)(1) specifies that the estimated per pupil funding amount from the CSF for a given budget year is to be computed using the estimated “weighted” student count for the current year and estimated resources in the CSF for the budget year. The Arizona Department of Education (ADE) currently estimates that the weighted student count for the current year will be 1,280,756 and the JLBC Staff currently estimates that the CSF will have \$499,366,300 in available resources for FY 2009 apart from any adjustment for cumulative prior year shortfalls. It is from these 2 figures that the \$390 per pupil CSF estimate for FY 2009 was derived ( $\$499,366,300 / 1,280,756 = \$390$  per weighted pupil) (*see attachment*).

## Estimated Weighted Student Count

The estimated FY 2009 weighted student count of 1,280,756 is based on preliminary 100-day Average Daily Membership (ADM) counts from school districts for the current year (FY 2008) and projected 100-day ADM counts for charter schools for next year (FY 2009). This is because CSF allocations are based on “student counts,” which in statute means “prior year” ADM for districts (FY 2008 for the FY 2009 distribution) and “current year” ADM for charter schools (FY 2009 for the FY 2009 distribution). The portion of the estimated count that pertains to charter schools, therefore, is more uncertain than the district portion because it will depend on actual charter school ADM growth next year.

ADE’s student count estimate includes pupils from the Arizona State Schools for the Deaf and the Blind (ASDB) and from the Department of Juvenile Corrections (DJC), since they also receive CSF funding. Per pupil allocations for public schools and DJC are based on their “Group A weighted” students counts pursuant to A.R.S. § 15-977(G). ASDB allocations are based on its “Group B weighted” students counts pursuant to A.R.S. § 15-977(L).

(Continued)

**JLBC**

### Estimated CSF Revenues

The CSF revenue estimate of \$499,366,300 for FY 2009 assumes a (0.3)% decline in Proposition 301 sales tax revenues for FY 2008 and 0.1% growth above FY 2008 for FY 2009. Both growth rates equal their respective March 2008 Consensus Forecasts, which were derived by equally weighting the Finance Advisory Committee forecast average, the University of Arizona Economic and Business Research (EBR) model baseline estimate, the EBR conservative estimate, and the JLBC Staff forecast.

The \$499,366,300 estimate also includes an estimated \$115,779,800 in K-12 endowment earnings for FY 2009. Proposition 301 requires all K-12 endowment earnings above \$72,263,000 to be deposited into the CSF. Based on currently available data from the State Treasurer and State Land Department, total K-12 endowment earnings for FY 2009 are expected to be \$188,042,800. Of that amount, \$72,263,000 will be used for Basic State Aid and School Facilities Board debt service and the remaining \$115,779,800 will be deposited into the CSF. The \$115,779,800 estimate is \$14,645,200 higher than the current JLBC Staff estimate for FY 2008 (\$101,134,600) based on projections recently received from the State Treasurer and State Land Department.

### Potential Impact of Estimation Error

The March 30 estimates are based on projected estimates of sales tax revenues, endowment earnings, carry forward amounts, student counts, and other factors. If revenue factors or student counts vary from the assumptions, more funding will end up being available per pupil than anticipated, and vice versa.

If the March 30 per pupil estimate is too *high*, recipients will receive only what is available for distribution from the CSF for the year, which would be less than the March 30 estimate would provide. Under this circumstance, A.R.S. §§ 15-977(M) and 15-978 would allow school districts to issue "warrants" (short term loans from commercial banks) to temporarily make up the difference. Districts would then have to pay back the warrants with interest the following year. Charter schools do not have statutory authority to issue warrants, however, so would have to cover any CSF shortfall with alternative funding, such as from separately-arranged bank financing.

If the March 30 per pupil estimate is too *low*, recipients potentially could receive at least a portion of the surplus funding anyway in FY 2009 through prior year back payments authorized by A.R.S. § 15-977(K). Otherwise, surplus monies would be carried forward into FY 2010 and factored into CSF per pupil computations for that year.

### FY 2008 Update

In March 2007, the CSF per pupil amount for FY 2008 was estimated at \$401. Since then, CSF sales tax revenues into the fund have underperformed by an estimated \$(34.8) million, but prior year surplus monies and lower than projected enrollment growth are expected to offset that change. As a result, ADE is still expected to allocate \$401 per pupil from the CSF for FY 2008, with \$4,772,300 being carried forward into FY 2009 under current estimates. The March 2007 memo on this topic indicated that surplus monies were expected to be available in the CSF for FY 2008, but did not factor them into the per pupil amount for that year because of potential back payments permitted under A.R.S. § 15-977(K). ADE, in fact, used \$12.9 million in available carry forward monies during FY 2008 to make a prior year back payment, but kept the remaining \$27.0 million surplus undistributed for contingencies.

In that regard, it should be noted that the current \$390 per pupil estimate for FY 2009 does not include adjustments for contingencies related to revenue or enrollment growth. Current law does not make provisions for such adjustments.

RS/SSc:ss

Attachment

xc: Senator Karen Johnson, Chairman, Senate K-12 Education Committee  
Representative Mark Anderson, Chairman, House K-12 Education Committee  
Senator Robert Burns, Chairman, Appropriations Committee  
Representative Russell Pearce, Chairman, Appropriations Committee  
Tom Horne, Superintendent of Public Instruction  
James Apperson, Director, OSPB  
Brian Lockery, House  
Jennifer Anderson, House  
Cristina Arzaga-Williams, House  
Michael Hunter, Senate  
Dawn Wallace, Senate  
Chris Kotterman, Senate

## Estimated Classroom Site Fund Per Pupil Allocation for FY 2009

JLBC Staff  
3/28/2008

Notes:

1. "Sales Tax" revenue estimates assume (0.3)% growth in FY 2008 and 0.1% growth in FY09.
2. "Prop 301 Expenditure" estimates for FY 2008 and FY 2009 are based on the distribution formula in A.R.S. § 42-5029(E).
3. "Endowment Earnings" estimates for FY 2008 and FY 2009 are JLBC Staff projections based on currently available information from the State Treasurer and State Land Department.
4. The "Weighted Student Count" estimates for FY 2008 and FY 2009 are from ADE and include ASDB and DJC, which receive CSF funding.

	FY 2007	(original) FY 2008	(revised) FY 2008	(estimated) FY 2009
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### Prop 301 Revenues

Sales Tax	664,850,900	697,685,500	662,856,300	663,519,200
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### Prop 301 Expenditures

SFB Debt Service	65,794,500	64,238,200	65,846,700	65,843,200
Universities	71,886,800	76,013,700	71,641,200	71,721,100
Community Colleges	17,971,700	19,003,400	17,910,300	17,930,300
Tribal Assistance	548,900	570,000	555,800	542,500
Additional School Days	86,280,500	86,280,500	86,280,500	86,280,500
School Safety	7,800,000	7,800,000	7,800,000	7,800,000
Character Education Matching Grants	200,000	200,000	200,000	200,000
Accountability Measures / SAIS	7,000,000	7,000,000	7,000,000	7,000,000
Failing Schools Tutoring Fund	1,500,000	1,500,000	1,500,000	1,500,000
Income Tax Credit for Sales Tax Paid	25,000,000	25,000,000	25,000,000	25,000,000
Classroom Site Fund	380,868,500	410,079,700	379,121,800	379,701,600
Total (sales tax only)	664,850,900	697,685,500	662,856,300	663,519,200

### Classroom Site Fund Revenues

Prop 301 Sales Tax	380,868,500	410,079,700	379,121,800	379,701,600
Endowment Earnings	66,971,300	100,697,900	101,134,600	115,779,800
Prior Year Carryforward	-	-	39,975,300	3,884,900
Total Estimated Revenues	447,839,800	510,777,600	520,231,700	499,366,300

### Classroom Site Fund Expenditures

Total Estimated Revenues	447,839,800	510,777,600	520,231,700	499,366,300
Less: Backpayments for Prior Year Shortfalls	-	-	(12,933,000)	-
Less: Carryforward to Next Year	(39,975,300)	-	(3,884,900)	-
Net Revenues Available for Current Year	407,864,500	510,777,600	503,413,800	499,366,300
Weighted Student Count	1,224,818	1,274,996	1,255,396	1,280,756
Available Funding Per Weighted Pupil	\$333	\$401	\$401	<b>\$390</b>